

1(b)(8) regarding adjustments in the case of overwithholding.

(e) through (i) [Reserved] For further guidance, see § 1.1441-3(e) through (i).

(j) *Effective/applicability date.* (1) Except as otherwise provided in paragraph (g) of this section, this section applies to payments made after June 30, 2014. (For payments made after December 31, 2000, see this section as in effect and contained in 26 CFR part 1 revised April 1, 2013.)

(2) *Expiration date.* The applicability of this section expires on February 28, 2017.

[T.D. 9658, 79 FR 12773, Mar. 6, 2014]

**§ 1.1441-4 Exemptions from withholding for certain effectively connected income and other amounts.**

(a) *Certain income connected with a U.S. trade or business*—(1) *In general.* No withholding is required under section 1441 on income otherwise subject to withholding if the income is (or is deemed to be) effectively connected with the conduct of a trade or business within the United States and is includible in the beneficial owner's gross income for the taxable year. For purposes of this paragraph (a), an amount is not deemed to be includible in gross income if the amount is (or is deemed to be) effectively connected with the conduct of a trade or business within the United States and the beneficial owner claims an exemption from tax under an income tax treaty because the income is not attributable to a permanent establishment in the United States. To claim a reduced rate of withholding because the income is not attributable to a permanent establishment, see § 1.1441-6(b)(1). This paragraph (a) does not apply to income of a foreign corporation to which section 543(a)(7) applies for the taxable year or to compensation for personal services performed by an individual. See paragraph (b) of this section for compensation for personal services performed by an individual.

(2) *Withholding agent's reliance on a claim of effectively connected income*—(i) *In general.* Absent actual knowledge or reason to know otherwise, a withholding agent may rely on a claim of exemption based upon paragraph (a)(1) of this section if, prior to the payment

to the foreign person, the withholding agent can reliably associate the payment with a Form W-8 upon which it can rely to treat the payment as made to a foreign beneficial owner in accordance with § 1.1441-1(e)(1)(ii). For purposes of this paragraph (a), a withholding certificate is valid only if, in addition to other applicable requirements, it includes the taxpayer identifying number of the person whose name is on the Form W-8 and represents, under penalties of perjury, that the amounts for which the certificate is furnished are effectively connected with the conduct of a trade or business in the United States and is includable in the beneficial owner's gross income for the taxable year. In the absence of a reliable claim that the income is effectively connected with the conduct of a trade or business in the United States, the income is presumed not to be effectively connected, except as otherwise provided in paragraph (a) (2)(ii) or (3) of this section. See § 1.1441-1(e)(4)(ii)(C) for the period of validity applicable to a certificate provided under this section and § 1.1441-1(e)(4)(ii)(D) for changes in circumstances arising during the taxable year indicating that the income to which the certificate relates is not, or is no longer expected to be, effectively connected with the conduct of a trade or business within the United States. A withholding certificate shall be effective only for the item or items of income specified therein. The provisions of § 1.1441-1(b)(3)(iv) dealing with a 90-day grace period shall apply for purposes of this section.

(ii) [Reserved] For further guidance, see § 1.1441-4T(a)(2)(ii).

(3) *Income on notional principal contracts*—(i) *General rule.* Except as otherwise provided in paragraph (a)(3)(iii) of this section, a withholding agent that pays amounts attributable to a notional principal contract described in § 1.863-7(a) or § 1.988-2(e) shall have no obligation to withhold on the amounts paid under the terms of the notional principal contract regardless of whether a withholding certificate is provided. However, a withholding agent must file returns under § 1.1461-1(b) and (c) reporting the income that it must treat as effectively connected with the

conduct of a trade or business in the United States under the provisions of this paragraph (a)(3). Except as otherwise provided in paragraph (a)(3)(ii) of this section, a withholding agent must treat the income as effectively connected with the conduct of a U.S. trade or business if the income is paid to, or to the account of, a qualified business unit of a foreign person located in the United States or, if the payment is paid to, or to the account of, a qualified business unit of a foreign person located outside the United States, the withholding agent knows, or has reason to know, the payment is effectively connected with the conduct of a trade or business within the United States. Income on a notional principal contract does not include the amount characterized as interest under the provisions of § 1.446-3(g)(4).

(ii) *Exception for certain payments.* A payment shall not be treated as effectively connected with the conduct of a trade or business within the United States for purposes of paragraph (a)(3)(i) of this section even if no withholding certificate is furnished if the payee provides a representation in a master agreement that governs the transactions in notional principal contracts between the parties (for example an International Swaps and Derivatives Association (ISDA) Agreement, including the Schedule thereto) or in the confirmation on the particular notional principal contract transaction that the payee is a U.S. person or a non-U.S. branch of a foreign person.

(iii) *Exception for specified notional principal contracts.* A withholding agent that makes a payment attributable to a specified notional principal contract described in section 871(m) and the regulations thereunder that is not treated as effectively connected with the conduct of a trade or business within the United States is obligated to withhold on the amount of the payment that is a dividend equivalent.

(b) *Compensation for personal services of an individual—*(1) *Exemption from withholding.* Withholding is not required under § 1.1441-1 from salaries, wages, remuneration, or any other compensation for personal services of a nonresident alien individual if such compensation is effectively connected

with the conduct of a trade or business within the United States and—

(i) Such compensation is subject to withholding under section 3402 (relating to withholding on wages) and the regulations under that section;

(ii) Such compensation would be subject to withholding under section 3402 but for the provisions of section 3401(a) (not including section 3401(a)(6)) and the regulations under that section. This paragraph (b)(1)(ii) does not apply to payments to a nonresident alien individual from any trust described in section 401(a), any annuity plan described in section 403(a), any annuity, custodial account, or retirement income account described in section 403(b), or an individual retirement account or individual retirement annuity described in section 408. Instead, these payments are subject to withholding under this section to the extent they are exempted from the definition of wages under section 3401(a)(12) or to the extent they are from an annuity, custodial account, or retirement income account described in section 403(b), or an individual retirement account or individual retirement annuity described in section 408. Thus, for example, payments to a nonresident alien individual from a trust described in section 401(a) are subject to withholding under section 1441 and not under section 3405 or section 3406.

(iii) Such compensation is for services performed by a nonresident alien individual who is a resident of Canada or Mexico and who enters and leaves the United States at frequent intervals;

(iv) Such compensation is, or will be, exempt from the income tax imposed by chapter 1 of the Code by reason of a provision of the Internal Revenue Code or a tax treaty to which the United States is a party;

(v) Such compensation is paid after January 3, 1979 as a commission or rebate paid by a ship supplier to a nonresident alien individual, who is employed by a nonresident alien individual, foreign partnership, or foreign corporation in the operation of a ship or ships of foreign registry, for placing orders for supplies to be used in the operation of such ship or ships with the

supplier. See section 162(c) and the regulations thereunder for denial of deductions for illegal bribes, kickbacks, and other payments; or

(vi) Compensation that is exempt from withholding under section 3402 by reason of section 3402(e), provided that the employee and his employer enter into an agreement under section 3402(p) to provide for the withholding of income tax upon payments of amounts described in § 31.3401(a)-3(b)(1) of this chapter. An employee who desires to enter into such an agreement should furnish his employer with Form W-4 (withholding exemption certificate) (or such other form as the Internal Revenue Service (IRS) may prescribe). See section 3402(f) and the regulations thereunder and § 31.3402(p)-1 of this chapter.

(2) *Manner of obtaining withholding exemption under tax treaty*—(i) [Reserved] For further guidance, see § 1.1441-4T(b)(2)(i).

(ii) *Withholding certificate claiming withholding exemption.* The statement claiming an exemption from withholding shall be made on Form 8233 (or an acceptable substitute or such other form as the IRS may prescribe). Form 8233 shall be dated, signed by the beneficial owner under penalties of perjury, and contain the following information—

(A) The individual's name, permanent residence address, taxpayer identifying number (or a copy of a completed Form W-7 or SS-5 showing that a number has been applied for), and the U.S. visa number, if any;

(B) The individual's current immigration status and visa type;

(C) The individual's original date of entry into the United States;

(D) The country that issued the individual's passport and the number of such passport, or the individual's permanent address if a citizen of Canada or Mexico;

(E) The taxable year for which the statement is to apply, the compensation to which it relates, and the amount (or estimated amount if exact amount not known) of such compensation;

(F) A statement that the individual is not a citizen or resident of the United States;

(G) The number of personal exemptions claimed by the individual;

(H) A statement as to whether the compensation to be paid to him or her during the taxable year is or will be exempt from income tax and the reason why the compensation is exempt;

(I) If the compensation is exempt from withholding by reason of an income tax treaty to which the United States is a party, the tax treaty and provision under which the exemption from withholding is claimed and the country of which the individual is a resident;

(J) Sufficient facts to justify the claim in exemption from withholding; and

(K) Any other information as may be required by the form or accompanying instructions in addition to, or in lieu of, the information described in this paragraph (b)(2)(ii).

(iii) [Reserved] For further guidance, see § 1.1441-4T(b)(2)(iii).

(iv) *Acceptance by withholding agent.* If after the review described in paragraph (b)(2)(iii) of this section the withholding agent is satisfied that an exemption from withholding is warranted, the withholding agent may accept the statement by making a certification, verified by a declaration that it is made under the penalties of perjury, on Form 8233. The certification shall be—

(A) That the withholding agent has examined the statement,

(B) That the withholding agent is satisfied that an exemption from withholding is warranted, and

(C) That the withholding agent does not know or have reason to know that the individual's compensation is not entitled to the exemption or that the eligibility of the individual's compensation for the exemption cannot be readily determined.

(v) [Reserved] For further guidance, see § 1.1441-4T(b)(2)(v).

(3) [Reserved] For further guidance, see § 1.1441-4T(b)(3).

(4) *Final payment exemption*—(i) *General rule.* Compensation for independent personal services of a nonresident alien individual who is engaged during the taxable year in the conduct of a trade or business within the United States may be wholly or partially exempted

from the withholding required by § 1.1441-1 from the final payment of compensation for independent personal services. This exemption does not apply to wages. This exemption from withholding is available only once during an alien individual's taxable year and is obtained by the alien individual presenting to the withholding agent a letter in duplicate from a district director stating the amount of compensation subject to the exemption and the amount that would otherwise be withheld from such final payment under section 1441 that shall be paid to the alien individual due to the exemption. The alien individual shall attach a copy of the letter to his or her income tax return for the taxable year for which the exemption is effective.

(ii) *Final payment of compensation for personal services.* For purposes of this paragraph, final payment of compensation for personal services means the last payment of compensation, other than wages, for personal services rendered within the United States that the individual expects to receive from any withholding agent during the taxable year.

(iii) *Manner of applying for final payment exemption.* In order to obtain the final payment exemption provided by paragraph (b)(4)(i) of this section, the nonresident alien individual (or his or her agent) must file the forms and provide the information required by the district director. Ordinary and necessary business expenses may be taken into account if substantiated to the satisfaction of the district director. The alien individual must submit a statement, signed by him or her and verified by a declaration that it is made under the penalties of perjury, that all the information provided is true and that to his or her knowledge no relevant information has been omitted. The information required to be submitted includes, but is not limited to—

(A) A statement by each withholding agent from whom amounts of gross income effectively connected with the conduct of a trade or business within the United States have been received by the alien individual during the taxable year, of the amount of such income paid and the amount of tax with-

held, signed and verified by a declaration that it is made under penalties of perjury;

(B) A statement by the withholding agent from whom the final payment of compensation for personal services will be received, of the amount of such final payment and the amount which would be withheld under § 1.1441-1 if a final payment exemption under paragraph (b)(4)(i) of this section is not granted, signed and verified by a declaration that it is made under penalties of perjury;

(C) A statement by the individual that he or she does not intend to receive any other amounts of gross income effectively connected with the conduct of a trade or business within the United States during the current taxable year;

(D) The amount of tax which has been withheld (or paid) under any other provision of the Code or regulations with respect to any income effectively connected with the conduct of a trade or business within the United States during the current taxable year;

(E) The amount of any outstanding tax liabilities (and interest and penalties relating thereto) from the current taxable year or prior taxable periods; and

(F) The provision of any income tax treaty under which a partial or complete exemption from withholding may be claimed, the country of the individual's residence, and a statement of sufficient facts to justify an exemption pursuant to such treaty.

(iv) *Letter to withholding agent.* If the district director is satisfied that the information provided under paragraph (b)(4)(iii) of this section is sufficient, the district director will, after coordination with the Director of the Foreign Operations District, ascertain the amount of the alien individual's tentative income tax for the taxable year with respect to gross income that is effectively connected with the conduct of a trade or business within the United States. After the tentative tax has been ascertained, the district director will provide the alien individual with a letter to the withholding agent stating the amount of the final payment of compensation for personal services that is exempt from withholding, and

the amount that would otherwise be withheld under section 1441 that shall be paid to the alien individual due to the exemption. The amount of compensation for personal services exempt from withholding under this paragraph (b)(4) shall not exceed \$5,000.

*Example 1.* On July 15, 1983, B, a non-resident alien individual, appears before a district director with the information required by paragraph (b)(4)(iii) of this section. B has received personal service income in 1983 from which \$3,000 has been withheld under section 1441. On August 1, 1983, B will receive \$5,000 in personal service income from W. B does not intend to receive any other income subject to U.S. tax during 1983. Taking into account B's substantiated deductible business expenses, the district director computes the tentative tax liability on B's income effectively connected with the conduct of a trade or business in the United States during 1983 (including the \$5,000 payment to be made on August 1, 1983) to be \$3,300. B does not owe U.S. tax for any other taxable periods. The amount of B's final payment exemption is determined as follows:

(1) The amount of total withholding is \$4,500 (\$3,000 previously withheld plus \$1,500, 30% of the \$5,000 final payment);

(2) The amount of tentative excess withholding is \$1,200 (total withholding of \$4,500 minus B's tentative tax liability of \$3,300); and

(3) To allow B to receive \$1,200 of the amount which would otherwise have been withheld from the final payment, the district director allows a withholding exemption for \$4,000 of B's final payment. W must withhold \$300 from the final payment.

*Example 2.* The facts are the same as in Example 1 except B will receive a final payment of compensation on August 1, 1983, in the amount of \$10,000 and B's tentative tax liability is \$3,900. The amount of B's final payment exemption is determined as follows:

(1) The amount of total withholding is \$6,000 (\$3,000 previously withheld plus \$3,000, 30% of the \$10,000 final payment);

(2) The amount of tentative excess withholding is \$2,100 (total withholding of \$6,000 minus B's tentative tax liability of \$3,900); and

(3) To allow B to receive \$2,100 of the amount which would otherwise be withheld from the final payment, \$7,000 of the final payment would have to be exempt from withholding; however, as no more than \$5,000 of the final payment can be exempt from withholding under this paragraph (b)(4), the district director allows a withholding exemption for \$5,000 of B's final payment. B must file a claim for refund at the end of the taxable year to obtain a refund of \$600. W must withhold \$1,500 from the final payment.

(5) *Requirement of return.* The tentative tax determined by the district director under paragraph (b)(4)(iv) of this section or by the Director of the Foreign Operations District under the withholding agreement procedure of paragraph (b)(3) of this section shall not constitute a final determination of the income tax liability of the non-resident alien individual, nor shall such determination constitute a tax return of the nonresident alien individual for any taxable period. An alien individual who applies for or obtains an exemption from withholding under the procedures of paragraphs (b) (2), (3), or (4) of this section is not relieved of the obligation to file a return of income under section 6012.

(6) *Personal exemption*—(i) *In general.* To determine the tax to be withheld at source under § 1.1441-1 from remuneration paid for personal services performed within the United States by a nonresident alien individual and from scholarship and fellowship income described in paragraph (c) of this section, a withholding agent may take into account one personal exemption pursuant to sections 873(b)(3) and 151 regardless of whether the income is effectively connected. For purposes of withholding under section 1441 on remuneration for personal services, the exemption must be prorated upon a daily basis for the period during which the personal services are performed within the United States by the nonresident alien individual by dividing by 365 the number of days in the period during which the individual is present in the United States for the purpose of performing the services and multiplying the result by the amount of the personal exemption in effect for the taxable year. See § 31.3402(f)(6)-1 of this chapter.

(ii) *Multiple exemptions.* More than one personal exemption may be claimed in the case of a resident of a contiguous country or a national of the United States under section 873(b)(3). In addition, residents of a country with which the United States has an income tax treaty in effect may be eligible to claim more than one personal exemption if the treaty so provides. Claims for more than one personal exemption shall be made on the withholding certificate furnished to the withholding

agent. The exemption must be prorated on a daily basis in the same manner as described in paragraph (b)(6)(i) of this section.

(iii) *Special rule where both certain scholarship and compensation income are received.* The fact that both non-compensatory scholarship income and compensation income (including compensatory scholarship income) are received during the taxable year does not entitle the taxpayer to claim more than one personal exemption amount (or more than the additional amounts permitted under paragraph (b)(6)(ii) of this section). Thus, if a nonresident alien student receives non-compensatory taxable scholarship income from one withholding agent and compensation income from another withholding agent, no more than the total personal exemption amount permitted under the Internal Revenue Code or under an income tax treaty may be taken into account by both withholding agents. For this purpose, the withholding agent may rely on a representation from the beneficial owner that the exemption amount claimed does not exceed the amount permissible under this section.

(c) *Special rules for scholarship and fellowship income*—(1) *In general.* Under section 871(c), certain amounts paid as a scholarship or fellowship for study, training, or research in the United States to a nonresident alien individual temporarily present in the United States as a nonimmigrant under section 101(a)(15) (F), (J), (M), or (Q) of the Immigration and Nationality Act are treated as income effectively connected with the conduct of a trade or business within the United States. The amounts described in the preceding sentence are those amounts that do not represent compensation for services. Such amounts (as described in the second sentence of section 1441(b)) are subject to withholding under section 1441, but at the lower rate of 14 percent. That rate may be reduced under the provisions of an income tax treaty. Claims of a reduced rate under an income tax treaty shall be made under the procedures described in § 1.1441-6(b)(1). Therefore, claims for reduction in withholding under an income tax treaty on amounts described in this paragraph (c)(1) may not be

made on a Form 8233. However, if the payee is receiving both compensation for personal services (including compensatory scholarship income) and non-compensatory scholarship income described in this paragraph (c)(1) from the same withholding agent, claims for reduction of withholding on both types of income may be made on Form 8233.

(2) *Alternate withholding election.* A withholding agent may elect to withhold on the amounts described in paragraph (c)(1) of this section at the rates applicable under section 3402, as if the income were wages. Such election shall be made by obtaining a Form W-4 (or an acceptable substitute or such other form as the IRS may prescribe) from the beneficial owner. The fact that the withholding agent asks the beneficial owner to furnish a Form W-4 for such fellowship or scholarship income or to take such income into account in preparing such Form W-4 shall serve as notice to the beneficial owner that the income is being treated as wages for purposes of withholding tax under section 1441.

(d) *Annuities received under qualified plans.* Withholding is not required under section § 1.1441-1 in the case of any amount received as an annuity if the amount is exempt from tax under section 871(f) and the regulations under that section. The withholding agent may exempt the payment from withholding if, prior to payment, it can reliably associate the payment with documentation upon which it can rely to treat the payment as made to a beneficial owner in accordance with § 1.1441-1(e)(1)(ii). A beneficial owner withholding certificate furnished for purposes of claiming the benefits of the exemption under this paragraph (d) is valid only if, in addition to other applicable requirements, it contains a taxpayer identifying number.

(e) *Per diem of certain alien trainees.* Withholding is not required under section 1441(a) and § 1.1441-1 on per diem amounts paid for subsistence by the United States Government (directly or by contract) to any nonresident alien individual who is engaged in any program of training in the United States under the Mutual Security Act of 1954, as amended (22 U.S.C. chapter 24). This rule shall apply even though such

amounts are subject to tax under section 871. Any exemption from withholding pursuant to this paragraph (e) applies without a requirement that documentation be furnished to the withholding agent. However, documentation may have to be furnished for purposes of the information reporting provisions under section 6041 and backup withholding under section 3406. The exemption from withholding granted by this paragraph (e) is not a determination that the amounts are not fixed or determinable annual or periodical income.

(f) *Failure to receive withholding certificates timely or to act in accordance with applicable presumptions.* See applicable procedures described in § 1.1441-1(b)(7) in the event the withholding agent does not hold an appropriate withholding certificate or other appropriate documentation at the time of payment or does not act in accordance with applicable presumptions described in paragraph (a) (2)(i), (2)(ii), or (3) of this section.

(g) *Effective/applicability date*—(1) *General rule.* This section applies to payments made after December 31, 2000, except that paragraph (a)(3)(iii) of this section applies to payments made on or after January 23, 2013.

(2) *Transition rules.* The validity of a Form 4224 or 8233 that was valid on January 1, 1998, under the regulations in effect prior to January 1, 2001 (see 26 CFR part 1, revised April 1, 1999) and expired, or will expire, at any time during 1998, is extended until December 31, 1998. The validity of a Form 4224 or 8233 that is valid on or after January 1, 1999, remains valid until its validity expires under the regulations in effect prior to January 1, 2001 (see 26 CFR part 1, revised April 1, 1999) but in no event will such form remain valid after December 31, 2000. The rule in this paragraph (g)(2), however, does not apply to extend the validity period of a Form 4224 or 8233 that expires solely by reason of changes in the circumstances of the person whose name is on the certificate. Notwithstanding the first three sentences of this paragraph (g)(2), a withholding agent may choose to not take advantage of the transition rule in this paragraph (g)(2) with respect to one or more withholding certificates

valid under the regulations in effect prior to January 1, 2001 (see 26 CFR part 1, revised April 1, 1999) and, therefore, to require withholding certificates conforming to the requirements described in this section (new withholding certificates). For purposes of this section, a new withholding certificate is deemed to satisfy the documentation requirement under the regulations in effect prior to January 1, 2001 (see 26 CFR part 1, revised April 1, 1999). Further, a new withholding certificate remains valid for the period specified in § 1.1441-1(e)(4)(ii), regardless of when the certificate is obtained.

(3) [Reserved] For further guidance, see § 1.1441-4T(g)(3).

(h) [Reserved] For further guidance, see § 1.1441-4T(h).

[T.D. 6500, 25 FR 12075, Nov. 26, 1960]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 1.1441-4, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at [www.fdsys.gov](http://www.fdsys.gov).

**§ 1.1441-4T Exemptions from withholding for certain effectively connected income and other amounts (temporary).**

(a)(1) through (a)(2)(i) [Reserved] For further guidance, see § 1.1441-4(a) through (a)(2)(i).

(ii) *Special rules for U.S. branches of foreign persons*—(A) *U.S. branches of certain foreign banks or foreign insurance companies.* A payment to a U.S. branch described in § 1.1441-1(b)(2)(iv)(B)(3) is presumed to be effectively connected with the conduct of a trade or business in the United States without the need to furnish a certificate if the withholding agent obtains an EIN for the entity, unless the U.S. branch provides a U.S. branch withholding certificate described in § 1.1441-1(e)(3)(v) that represents otherwise. If no certificate is furnished but the income is not, in fact, effectively connected income, then the branch must withhold whether the payment is collected on behalf of other persons or on behalf of another branch of the same entity. See § 1.1441-1(b)(2)(iv) and (b)(6) for general rules applicable to payments to U.S. branches of foreign persons.

(B) *Other U.S. branches.* See § 1.1441-1(b)(2)(iv)(E) for similar procedures for